

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Harbor Springs Area Fire Authority	County Emmet
Audit Date 12/31/05	Opinion Date 6/26/06	Date Accountant Report Submitted to State 7/13/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

- 1 We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
- 2 We are certified public accountants registered to practice in Michigan.

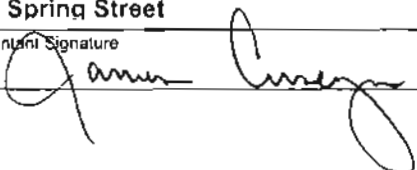
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits)			✓
Single Audit Reports (ASLGR).			✓

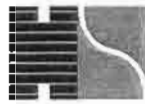
Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP			
Street Address 923 Spring Street		City Petoskey	State MI
Accountant Signature 		ZIP 49770	Date 7/13/06

FINANCIAL REPORT
HARBOR SPRINGS AREA FIRE AUTHORITY
December 31, 2005

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Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

June 26, 2006

Independent Auditors' Report

Board of Directors
Harbor Springs Area Fire Authority
Harbor Springs, Michigan

We have audited the accompanying financial statements of the Harbor Springs Area Fire Authority as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Springs Area Fire Authority as of December 31, 2005 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Harbor Springs Area Fire Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

HARBOR SPRINGS AREA FIRE AUTHORITY
Statement of Net Assets
December 31, 2005

Assets

Current assets

Cash	\$ 200,437
Due from other governmental units	<u>109,700</u>
Total current assets	<u>310,137</u>

Noncurrent Assets

Capital assets	700,988
Less: accumulated depreciation	<u>(425,912)</u>
Total noncurrent assets	<u>275,076</u>
Total assets	<u><u>\$ 585,213</u></u>

Liabilities and Net Assets

Current Liabilities

Due to other governmental units	<u>\$ 115,866</u>
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Net assets

Invested in capital assets	275,076
Restricted for future capital purposes	89,681
Unrestricted	<u>104,590</u>
Total net assets	<u>469,347</u>
Total liabilities and net assets	<u><u>\$ 585,213</u></u>

HARBOR SPRINGS AREA FIRE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended December 31, 2005

Operating revenue	
Charges for services	<u>\$ 110,600</u>
Operating expenses	
Operation and maintenance	108,379
Depreciation	<u>66,428</u>
Total operating expenses	<u>174,807</u>
Operating income (loss)	<u>(64,207)</u>
Nonoperating revenues	
Interest revenues	4,863
Grants and contributions	27,000
Other income	<u>775</u>
Total nonoperating revenues	<u>32,638</u>
Net loss before capital grants and contributions	(31,569)
Capital grants and contributions	<u>65,670</u>
Change in net assets	34,101
Total net assets - beginning	<u>435,246</u>
Total net assets - ending	<u><u>\$ 469,347</u></u>

HARBOR SPRINGS AREA FIRE AUTHORITY
Statement of Cash Flows
Year Ended December 31, 2005

Cash flows from operating activities	
Cash receipts from customers	\$ 97,200
Cash payments to suppliers for goods and services	<u>(110,165)</u>
Net cash provided (used) by operating activities	<u>(12,965)</u>
Cash flows from non-capital financing activities	
Operating grants received	<u>27,000</u>
Cash flows from capital and related financing activities	
Contributed capital	50,000
Capital grants received	15,670
Purchase of capital assets	(13,197)
Sale of capital assets	<u>775</u>
Net cash provided (used) by capital and related financial activities	<u>53,248</u>
Cash flows from investing activities	
Interest from bank accounts	<u>4,863</u>
Net increase (decrease) in cash	72,146
Cash, beginning	<u>128,291</u>
Cash, ending	<u><u>\$ 200,437</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	<u>\$ (64,207)</u>
Adjustments to net cash provided by operating activities:	
Depreciation	66,428
Change in assets and liabilities:	
(Increase) decrease due from other governmental units	(13,400)
Increase (decrease) due to other governmental units	<u>(1,786)</u>
Total adjustments	<u>51,242</u>
Net cash provided (used) by operations	<u><u>\$ (12,965)</u></u>

HARBOR SPRINGS AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1: THE REPORTING ENTITY

The Harbor Springs Area Fire Authority (the "Authority") was created as a corporate instrumentality in 1992 under provisions of Act 57, Michigan Public Acts of 1988. The local governments comprising the Authority include the City of Harbor Springs, Little Traverse, West Traverse and Pleasantview Townships. The Authority provides fire protection, equipment and services to these municipalities. The Authority is not included in any other governmental "reporting entity" as defined by GASB 14, since none of these governmental units appoint a majority of the Authority's board, the board members have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting – The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing fire protection services to member communities. All other revenues and expenses are reported as non-operating revenues and expenses.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

Capital Assets – The building, equipment and vehicles are recorded at cost. The vehicles are being depreciated under the straight-line method over their estimated useful life of 15 years; the other fixed assets are being depreciated over their shorter estimated useful lives using the straight-line method.

The Authority has not formally adopted a capitalization policy. Assets with a useful life of over 1 year continue to be capitalized. Provisions for depreciation aggregating \$66,428 in 2005 have been recorded in the statement of Revenue, Expenses, and Changes in Net Assets.

Capital Grants and Contributions – Capital grants awarded the Authority and contributions from member units to defray capital acquisition costs are recorded as capital grants and contributions.

Repair and Maintenance – Repair and maintenance expenses are charges against operations when incurred.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Statement Estimates – The Authority uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

NOTE 3: CASH

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At year-end, the carrying amount and the bank balance of the Authority's deposits was \$200,437, of which \$100,000 was covered by federal depository insurance. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

State statutes and the Fire Authority's investment policy authorize the Fire Authority to make deposits in the accounts of federally insured banks, credit unions, and saving and loan associations that have an office in Michigan; the Fire Authority is allowed to invest in U. S. Treasury or Agency obligations, U. S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Fire Authority's deposits are in accordance with statutory authority.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4: CAPITAL ASSETS

A summary of Capital Assets at December 31, 2005 follows:

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Assets not being depreciated:				
Construction in progress	\$ -	\$ 5,692	\$ -	\$ 5,692
Capital assets being depreciated:				
Buildings and improvements	29,946	-	-	29,946
Equipment	657,845	7,505	-	665,350
Subtotal	687,791	7,505	-	695,296
Less accumulated depreciation:				
Buildings and improvements	2,070	2,792	-	4,862
Equipment	357,414	63,636	-	421,050
Subtotal	359,484	66,428	-	425,912
Net capital assets being depreciated	328,307	(58,923)	-	269,384
Net capital assets	\$ 328,307	\$ (53,231)	\$ -	\$ 275,076

Construction in progress consists of:

	Project Estimates	Expended to Dec. 31, 2005	Committed at Dec. 31, 2005	Estimated Required Future Financing
Satellite Fire Station	\$ 350,000	\$ 5,692	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Authority pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the Authority could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.